Europan perplexity

Luiz Carlos Bresser-Pereira
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The financial crisis of the Eurozone was relatively overcome, but the economic crisis remains profound. The sovereign financial crisis of the Euro in 2010 resulted from the 2008 global banking crisis which led the States to run into debt in order to bail out the banks. It was overcome when the president of the European Central Bank ensured that he would buy on the secondary market the countries' sovereign debt securities.

But the economic crisis of the Eurozone continues to be unresolved. European economy as a whole is stagnant, because the implicit or internal exchange rates of the Southern countries have appreciated as compared to the rates of the Northern countries, and their enterprises ceased to be competitive.

The notion of internal exchange rate is a notion related to the value and not to the exchange rate market price. The value of exchange rate does not result from the variations in the supply and demand of foreign currency, which cause the market exchange rate to float around its value, but it is the value that the exchange rate must have in order to make competitive the enterprises existing in the country. The value of the exchange rate depends on the relationship between a country's productivity increase and wage increase (the “unit labor cost” in economic language) as compared to other countries. In 2003, Gerhard Schröeder, Germany's Prime minister at that time, through the Agenda 2010 initiative, promoted the flexibility of labor laws and, at the same time, concluded an agreement between enterprises and trade unions according to which wages would no longer be increased in the same proportion as productivity, in exchange for job security. Since the Southern countries did not reach the same agreement, their unit labor cost rose as compared to Germany's, the internal exchange rate appreciated, enterprises lost competitiveness and became indebted, households also became indebted, and this translated as huge current account deficits, despite the fact that public accounts remained in equilibrium (except for Greece).

In order to solve the economic crisis it is necessary to restore the equilibrium of unit labor costs, that is, to reduce wages. The normal way to do it would be for each country to retrieve its ability to depreciate the exchange rate – a solution that spreads among the whole society the cost of the necessary adjustment and does it at once – but which requires a monetary reform that, in a planned way, would discontinue the euro.

Since the Europeans do not have the courage to do it, an alternative would be an inflation that would reduce the actual wages, while the Northern European countries would increase their wages, but Germany does not accept to lose competitiveness with regard to China and to the United States. The third alternative is the one that is being adopted: it is "austerity", that is, wage reduction through recession and unemployment. It is a cruel solution, whose weight falls on wage-earners and small enterprises. It is the solution against which perplexed European citizens protest on the streets and in elections, but, in the end, it is the feasible solution as long as they do not lose the almost religious respect they have developed regarding their common currency.